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IN THE

Supreme Court of the United States

OCTOBER TERM, 1996

GENENTECH, INC.,

Petitioner,

vs.

THE REGENTS OF THE UNIVERSITY OF CALIFORNIA,

Respondent.

REPLY BRIEF IN SUPPORT OF A PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

REPLY BRIEF IN SUPPORT OF PETITION FOR A WRIT OF CERTIORARI

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TABLE OF CONTENTS

	Page
TABLE OF AUTHORITIES	iii
THE FEDERAL CIRCUIT'S DECISION REPRESENTS A DRASTIC DEPARTURE FROM PREEXISTING LAW AND HAS CREATED A SIGNIFICANT CONFLICT AMONG THE LOWER COURTS	1
A. The Federal Circuit's Decision is a Drastic Departure from Traditional Doctrine	2
B. Under the Traditional Legal Standard, The Community of Interest Doctrine Did Not Apply to Mere Exclusive Optionees	3
CONCLUSION	6

TABLE OF AUTHORITIES

Cases:	Page
Baxter Travenol Labs, Inc. v. Abbott Labs., 1987 WL 12919 (N.D. Ill. 1987)	3, 4,5
Duplan Corp. v. Deering Milliken, Inc., 397 F. Supp. 1146 (D. S.C. 1975)	2, 3
In Re the Regents of the University of California, 101 F.3d 1386 (Fed. Cir. 1996)	1

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Genentech, Inc. ("Genentech") respectfully submits this reply brief in support of its petition for a writ of certiorari.

I. The Federal Circuit's Decision Represents a Drastic Departure From Preexisting Law and Has Created A Significant Conflict Among the Lower Courts

The Brief in Opposition (March 17, 1997) of the Regents of the University of California ("UC") attempts to minimize the extent to which the Federal Circuit's decision in *In Re the Regents of the University of California*, 101 F.3d 1386 (Fed. Cir.

1996) has created a conflict among the lower courts concerning the scope of the "community of interest" doctrine. UC can do so only by grossly mischaracterizing the Federal Circuit's opinion and by distorting preexisting law. In fact, had the traditional community of interest doctrine been applied to the instant case, the District Court's ruling would have been affirmed.

A. The Federal Circuit's Decision is a Drastic Departure from Traditional Doctrine

The "substantially identical" legal interest standard adopted by the Federal Circuit is fundamentally different than the traditional "identical legal interest" standard, which required an absolute identity of legal interests. *See*, *Duplan Corp. v. Deering Milliken, Inc.*, 397 F. Supp. 1146, 1172 (D. S.C. 1975) (under the traditional doctrine, "...the key consideration is that the nature of the interest be identical, not similar, and be legal, not solely commercial").

Perhaps more importantly, however, the Federal Circuit's opinion explicitly obliterates the "in anticipation of litigation" prong of the test, finding that it is sufficient if the communications related to "compliance with law and meeting legal requirements". *Id.* The Federal Circuit concludes that virtually every communication during patent prosecution will satisfy this test.

By adopting this watered-down test in the context of communications shared during patent prosecutions, the Federal Circuit has effectively swept aside the "in anticipation" prong of the traditional test. Since virtually all communications during patent prosecutions between parties with "substantially identical legal interests" will relate in one way or another to "compliance with law and meeting legal requirements", under the approach of the Federal Circuit all such communications will be deemed protected by a community of interest, irrespective of whether the communications were actually in anticipation of litigation or made as part of a joint plan to avoid litigation. Under the traditional doctrine, the party seeking to sustain a claim of privilege had the burden of showing that

each one of the specific communications at issue occurred in relation to specifically anticipated litigation or as part of a plan to void specifically identifiable anticipated litigation. *See*, *Duplan*, 397 F. Supp. at 1172. The Federal Circuit has effectively eviscerated this traditional requirement in the context of patent prosecutions.

B. Under the Traditional Legal Standard, The Community of Interest Doctrine Did Not Apply to Mere Exclusive Optionees

In attempting to prove that the Federal Circuit's ruling did not create a conflict among the lower courts, UC contends that the Federal Circuit's opinion is consistent with the decision of the United States District Court for the Northern District of Illinois in *Baxter Travenol Labs Inc. v. Abbott Labs.*, 1987 WL 12919 (N.D. Ill. June 19, 1987). However, UC is dead wrong. In fact, if the reasoning of *Baxter Travenol Labs* were applied to the present case, UC's claim of privilege would not be sustained because Lilly held at most an exclusive option for a non-exclusive license, and was "less than" a non-exclusive licensee.[1]

First, unlike the Federal Circuit, the Court in *Baxter Travenol Labs* carefully adhered to both prongs of the "identical legal interest" standard. *Id.* at *2.

Second, contrary to UC's suggestion, the facts in *Baxter Travenol* are substantially different from the facts in the

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[1] UC asserts that the Federal Circuit did not err when it found that Lilly was "more than" a non-exclusive licensee. However, this was a clear, and indeed, monumental, error. During the time period in which the communications at issue were generated (i.e., prior to 1989), Lilly had at most an exclusive option for a *non-exclusive license*. Until Lilly exercised this option, it had no rights to practice under UC's patents and thus, was "less than" a non-exclusive licensee. In this regard, the Federal Circuit mysteriously ignored the uncontradicted findings by the District Court that there was considerable doubt as to whether Lilly would exercise its option, and that Lilly was free to walk away from its option at any time. In these circumstances, the Federal Circuit clearly abused its discretion.

present case, and indeed, the differences in the facts between the two cases are highly instructive. In *Baxter Travenol*, Baxter entered into a consulting and option agreement in December 1978 pursuant to which it participated in a joint program with Popovitch and Moncrief ("Popovitch") for developing certain patents and technology. *Id.* Baxter was granted the option of acquiring an exclusive world-wide license of any patents or patent rights arising from the parties' joint efforts. *Id.* In March 1981, Baxter exercised its option and obtained licenses on the patents. The patents which were licensed to Baxter were the direct outgrowth of the joint development program. *Id.* There was no evidence that Baxter had obtained rights to competing patents or conflicting patents developed by competitors of Popovitch.

In contrast, in the present case, in 1978 UC and Lilly entered into an option agreement pursuant to which Lilly acquired an exclusive option to acquire a *non-exclusive* license of patent rights that were the result of certain governmentally-funded research at UC, including the rights to the patent-in-suit.[2] Since the option agreement required that Lilly issue sublicenses to qualified licensees, Lilly's exercise of its option would not have enabled it to exclude its competitors from the market. Therefore, as the District Court found, it was not a foregone conclusion that Lilly would exercise its option.

The undisputed facts indicated that Lilly informed UC that it would only be willing to accept a license on an exclusive basis, thereby requiring modification to the terms of Lilly's option. (Pet. at 5) UC maintained in the District Court that it was "confused" during the relevant time period as to whether

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[2] UC complains that Genentech did not provide copies of the option agreement with its initial petition. However, UC does not dispute, nor could it dispute, that Lilly had an option for only a *non-exclusive* license. Since it is undisputed that the district court's decision accurately summarized the terms of the option agreement, Genentech did not file the actual agreement -- which was produced under a confidentiality agreement -- with this Court, but Genentech would be pleased to do so if UC and Lilly do not object.

Lilly had exercised the option. (UC Ex. 3 at n. 10)[3] Moreover, the patents and patent applications at issue were not the product of UC's joint collaborative research with Lilly, but resulted from federally-funded research at UC. (Pet. at 4) Lilly first acquired rights to practice under the patent-in-suit in 1989, and even then it continued to have an interest in competing Genentech patents. (Pet. at 5) Lilly never acquired rights to practice under any of the other patents and patent applications as to which UC has asserted a community of interest with Lilly. *Id.* Moreover, UC never made any attempt to show that any of the communications at issue were in anticipation of litigation (or as part of a plan to avoid litigation). Thus, if *Baxter Travenol*, and the traditional legal doctrine articulated therein, were faithfully applied to the facts of this case, the Federal Circuit would have affirmed the decision of the District Court.

Instead, the Federal Circuit elected to reverse the District Court's decision. In so doing, the Federal Circuit has created a serious conflict among the lower courts that is ripe for resolution by this Court.[4]

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[3] As used herein, "UC Ex. " refers to Exhibits to UC's Petition for Writ of Mandamus, dated July 16, 1997.

[4] UC argues that this Court should not grant Genentech's petition because after final judgment, Genentech could appeal the Federal Circuit's ruling. This case presents the Court with a rare and meaningful opportunity to consider a vital issue of concern to litigants throughout the United States, particularly because, in the circumstances of this complex and important case, this Court's consideration of the issue will also substantially assist the parties and the lower courts in advancing this case toward final disposition.

CONCLUSION

Based on the foregoing, and for the reasons set forth in Genentech's main brief, Genentech respectfully requests that the Court grant its petition for writ of certiorari.

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Respectfully submitted

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